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CTA Statement for the Record for the House Ways and Means and Senate Finance Committees Respective Hearings on the 2024 U.S. Trade Policy Agenda

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In advance of the April 16 and April 17 congressional hearings on the 2023 U.S. Trade Policy Agenda, the Consumer Technology Association (CTA)® respectfully submits this statement for the record on increasing the ambition of U.S. trade policy and reducing the harm the current path is causing to the U.S. economy.

The current trajectory set by the Office of the United States Trade Representative (USTR) should be cause for deep bipartisan concern. The current U.S. trade policy agenda is undercutting the collective U.S. efforts to compete with China not just on trade, but on our foreign policy and national defense priorities.

By not negotiating or entering into new trade agreements, not defending U.S. companies from barriers to trade in foreign markets, and ceding global trade leadership to other countries, including U.S. adversaries, USTR is isolating the United States, harming the U.S. economy, increasing inflation, and weakening the U.S. innovative and defensive capacity. More, by taking protectionist steps in the name of its "worker-centered trade policy" or "supply chain resilience," USTR in fact is diminishing prospects for U.S. workers and their long-term investments. Collectively, this helps China, not the United States.

CTA is gravely concerned that the isolationism envisioned by USTR will lead to more expensive consumer prices. With workers already in short supply due to generational shifts in the U.S. workforce shifts and limitations on immigration, USTR's protectionist agenda will result in out-of-control inflation and force interest rates higher. This lethal combination of cutting down on trade, failure to protect U.S. companies overseas, and higher-for-longer interest rates will hurt our national defense as it will isolate us from our friendly trading partners, skyrocket government interest payments and further take away from defense spending.

With this context in mind, CTA offers the statement below.

USTR Has Thrown U.S. Companies into the Trade Jungle

Congress created the Office of the Special Trade Representative (STR) under the Executive Office of the President in Section 141 of the Trade Act of 1974. President Carter reorganized the STR and established it as the Office of the U.S. Trade Representative (USTR) in 1979 under

Executive Order 12188. Since its founding, U.S. businesses of all sizes and all sectors expected that USTR would identify foreign trade barriers and work to address and remove them through a wide range of negotiation, enforcement and litigation tools. They did not expect that USTR would encourage foreign governments to impose trade barriers on U.S. companies and ignore the harms of those barriers on the U.S. economy.

Today, the USTR openly admits that encouraging foreign trade barriers in the name of "public interest" is a fundamental aspect of its harmful and misguided domestic competition policy. Since October 2023, USTR under Ambassador Katherine Tai has taken the position that all governments deserve "policy space" to regulate as they see fit. When USTR released the significantly shorter National Trade Estimate report in March 2023, Ambassador Tai reiterated that each government "has the sovereign right to govern in the public interest and to regulate for legitimate public policy reasons." These statements are not as benign as they first appear.

Under this worldview, USTR is signaling to other governments that they can discriminate against U.S. companies – whether by intent or impact – and USTR will do nothing in response, especially if the government claims the measure is in the "public interest." With this policy, USTR has opened a Pandora's box of discrimination against U.S. companies to preserve the United States's own ability to discriminate and violate international trade norms and U.S. law.

Where does this leave U.S. companies, particularly technology firms who are the primary target of the Administration's ire? Once, they could rely on the U.S. government to uphold and promote the rule of law and to enforce the WTO and other free trade agreements. Now, they will contend with the law of the jungle, where might makes right and the rule of law is an inconvenient relic of the past. U.S. companies exporting to other markets or operating abroad will be on their own in facing trade barriers, whether digital barriers, technical barriers, or other discriminatory measures. They will receive less favorable treatment by foreign governments, who may choose to prioritize their own domestic companies and retaliate against U.S. measures.

Congress must hold USTR to account, demand that USTR justify its deviation from decades of bipartisan trade policy and explain why it believes that other governments can do whatever they want on trade so long as they claim their measures are in the "public interest." More, if USTR remains unable to meet its statutory obligations to defend U.S. companies in foreign markets, Congress should consider drastic steps, such as withholding appropriations, refusing to confirm nominees for key roles or assigning responsibility for digital trade issues to other agencies.

USTR's Theory of the Case on Supply Chain Resilience Is Wrong

The Biden-Harris Administration has identified supply chain resilience for certain strategic goods as one of its top economic priorities. The Administration has also cited the fragility of certain private sector supply chains during the pandemic as a reason for this approach. While some supply chains showed strains of historically high demand during the pandemic, not all supply chains buckled and collapsed. In fact, many, many more survived and thrived due to the agility and nimbleness of U.S. companies and their ability to pivot in the face of challenging circumstances associated with the pandemic (e.g., people staying at home and purchasing more goods, including consumer technology products). These companies, many of them startups and small businesses, succeeded without any help from federal or state governments and often had to overcome policy barriers hampering their ability to compete and respond (e.g., the tariffs on imports from China under Section 301 of the Trade Act of 1974).

President Biden issued an Executive Order (EO) on America's Supply Chains in February 2021. Only now, more than three years later, is USTR seeking public comment and testimony from stakeholders on its own set of supply chain resiliency principles that diverge from the EO. In doing so, it is signaling that supply chains not located in the United States are inherently risky and that government intervention might be necessary to address those risks. It is not making any distinction between strategic goods identified by the EO and goods designed for and delivered to consumers. In fact, the Federal Register Notice concerning this request for comment identifies many additional economic sectors for scrutiny, most of which are not related to the EO. Congress should be wary of USTR going 'off-mission' and designing trade measures that have protectionist intent for the sake of supply chain resilience.

In CTA's comments and testimony before USTR in that consultation, we will encourage USTR to understand how and why companies design and execute supply chains. USTR may benefit from viewing supply chains, and the workers who run them, not through the lens of academics or the federal government but through the eyes of the private sector. It may also benefit from speaking more with U.S. trading partners, particularly our treaty allies and FTA partners, who may take offense at USTR efforts to force companies to make everything in the United States. Supply chain resilience is an important concept, but it should not be a pretext for protectionism and forced localization at the expense of U.S. foreign policy and economic interests.

Tariffs Hurt U.S. Consumers, and Supply Chains and Are Not as Worker Centric as USTR Believes

CTA has long fought for tariff relief for the consumer technology industry, including by advocating the removal of the harmful and ineffective Section 301 tariffs on imports from China.[1] Study after study demonstrates that tariffs, which are taxes on imports, do **not** make U.S. businesses more competitive, lead to more job creation, or make supply chains more resilient. These studies have indicated that the U.S. consumer bears the costs of U.S. tariffs.[2]

[1] *See, e.g.,* CTA's comment to USTR on its four-year necessity review docket, submission USTR-2022-0014-00034970, available at https://comments.ustr.gov/s/commentdetails?rid=72BH3CQWG6.

[2] Building a Resilient U.S. Consumer Technology Supply Chain, CONSUMER TECHNOLOGY ASSOCIATION (July 2022), https://shop.cta.tech/products/building-a-resilient-u-s-consumer-technology-supply-chain; *Analysis of Section 301 Tariff Impacts on Imports of Consumer Technology Products*, CONSUMER TECHNOLOGY ASSOCIATION (July 2022), https://shop.cta.tech/products/analysis-of-section-301-tariff-impacts-on-imports-of-consumer-technologyproducts?variant=43179752358058; *PNTR Revocation is a Recipe for Inflation*, CONSUMER TECHNOLOGY ASSOCIATION (Jan. 2024),

This is because importers to the United States pay the tariffs,[3] not foreign governments. Importers can either absorb the costs or pass them on through their supply chains. Inevitably U.S. consumers pay the costs. CTA has included a short annex to our statement on recent studies and tariff commentary for the benefit of the Ways and Means and Finance Committees.

USTR believes that tariffs make supply chains more resilient. USTR has also demonstrated that it does not value the public comments it receives about tariffs. This ambivalence was evident during both the current and prior Administrations. For example, in 2019, USTR implemented massive and unprecedented modifications to the Section 301 tariffs over 3,000+ vociferous public comments opposing the policy. And this USTR has dallied for nearly two years on the statutorily-required “necessity review” of those tariffs, again in ignorance of thousands of public comments seeking the removal of the tariff action.

The truth is that tariffs undermine the resilience of private sector-led supply chains by imposing more costs, creating significant uncertainty on rates and duration of duties, and forcing companies to spend time and resources on tariff payments and bureaucracy as opposed to hiring and innovating new products and services. Instead of dismissing tariff analysis as “fiction” or conveniently ignoring authoritative research inconsistent with its worldview, USTR should take this analysis into account as it formulates and executes U.S. trade policy. Further, we encourage Congress to organize hearings with trade economists to present their research in person to Committee members and invite USTR leadership to attend these hearings.

If USTR or Congress truly believe that tariffs are a necessary tool - for example to prevent highly subsidized imports from China from entering the U.S. market or further decouple the U.S.-China economic relationship by revoking permanent normal trade relations - it must level with Americans that they will experience higher inflation, higher costs for inputs and finished goods, and retaliation by trading partners that could evaporate markets for their goods and services abroad. Such candor with the American public is emblematic of rational and compelling leadership. Ignoring inconvenient truths about economic impacts of tariffs and other trade barriers is the hallmark of governments lacking confidence in their actions and seeking to deflect the political fallout.

Reducing Trade Costs Between the United States and Its Trading Partners Will Support Supply Chain Diversification Efforts

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https://cdn.cta.tech/cta/media/media/pdfs/cta_pntrreport.pdf?_ga=2.139639793.373325017.1712953669-1972693078.1712953669&_gl=1*8wysx5*_ga*MTk3MjY5MzA3OC4xNzEyOTUzNjY5*_ga_5P7N8TBME7*MTcxMjk1MzY2OS4xLjAuMTcxMjk1MzY3Mi41Ny4wLjA.

[3] *E.g.,* U.S. International Trade Commission, Press Release, *Certain Effects of Section 232 and 301 Tariffs Reduced Imports and Increased Prices and Production in Many U.S. Industries*, available at https://www.usitc.gov/press_room/news_release/2023/er0315_63679.htm (“The report finds that on average from 2018 to 2021: U.S. importers bore nearly the full cost of these tariffs because import prices increased at the same rate as the tariffs.”)

As companies reorient their supply chains and find new sourcing opportunities, they will look at the costs of trade between the United States and its allies and key trading partners. Reducing trade costs, whether through tariff elimination, trade facilitation measures, or regulatory alignment, will create a stronger enabling environment for the diversification of supply chains. Reducing trade costs also allows U.S. companies to compete more effectively against firms from foreign adversaries.

USTR may promote the notion that more trade barriers lead to more resilient supply chains, for example by localizing production of goods in specific economies. However, reducing trade costs allows companies to make their supply chains as efficient as possible, therefore permitting them to lower their own internal costs and deliver competitively priced products to consumers. Companies also will seek to produce their goods with sustainability in mind as a means of delivering more ethical products to consumers, particularly in the face of growing consumer demand for such products. The costs of sustainable production are decreasing, and companies will benefit from being able to freely choose sourcing partners that can demonstrate high commitments to sustainability. But more importantly, lowering trade costs strengthens U.S. commercial and trade relations with its allies and key trading partners, thereby increasing U.S. soft power over time.

USTR Must Negotiate New Agreements that Strengthen U.S. Relationships with Its Allies and Key Trading Partners

USTR has stated that free trade agreements are a tool of the 20th century. Nevertheless, in the 21st century, U.S. trading partners continue to negotiate FTAs, some of which exceed the high standards of the U.S.-Mexico-Canada Agreement (USMCA) particularly on topics like digital trade. The Biden Administration has chosen to avoid any trade negotiations that would result in an agreement require an affirmative vote from Congress for enactment, thereby seeking to make an end-run around long-standing, bipartisan Congressional priorities.

CTA strongly advocates for the negotiation of new FTAs to support supply chain diversification, particularly with U.S. treaty allies such as the United Kingdom and Japan and other close trading partners in Southeast Asia, such as Vietnam, Thailand, Malaysia, and the Philippines. The adamant refusal of USTR to even contemplate the negotiation of comprehensive, market-opening, binding and enforceable FTAs with these partners is a source of comfort to U.S. adversaries. USTR could still address its labor and sustainability objectives through FTA negotiations while advancing higher-standard rules that curtail the harmful and predatory practices of adversaries. USTR’s current posture of of doing as little as possible on trade creates a vacuum in the global rule-making environment. Stronger U.S. trade leadership on the global stage is necessary to fill that vacuum.

U.S. Global Trade Leadership Is Essential for Preserving and Strengthening the Multilateral Trading System

At the 13th WTO Ministerial Conference in Abu Dhabi in February, a final, limited package came together due to the leadership of the UAE and the WTO Director-General, Dr. Ngozi Okonjo-Iweala. We understand that the USTR team on the ground worked incredibly hard behind the scenes to secure another two-year extension of the moratorium on customs duties on electronic transmissions. This was the most important deliverable for MC13. However, it does not seem that USTR leadership played a key role in securing this deliverable. The path to MC14 in Cameroon in 2026 will be far more difficult and will require greater and more visible leadership from USTR to renew the moratorium or make it permanent. A permanent moratorium would benefit U.S. businesses in all sectors and of all sizes by providing durable certainty that they will not face tariffs on cross-border data flows as they navigate a global digital economy made all the more challenging through USTR's unwillingness to address barriers to trade in foreign markets.

Conclusion

CTA greatly appreciates the opportunity to submit these comments for the record. We look forward to continuing to work with the House Ways and Means and Senate Finance Committees to increase the ambition of the U.S. trade policy agenda, combat inflation, strengthen U.S. trade and economic ties with allies, open new markets to exports of U.S. consumer technology products, negotiate high-standard, binding and enforceable trade rules and bolster U.S. technology leadership and the innovation economy.

Attachment 1 – Studies on Economic Impact of Tariffs – 2021 - present

1. April 2024, Goldman Sachs Economics Research: The Effect of Tariffs on Government Revenue, Growth, and Inflation: Lessons From the Last Trade War (Walker); Jan Hatzius, Alec Phillips, David Mericle, Spencer Hill, Ronnie Walker, Manuel Abecasis, Tim Krupa, Elsie Peng and Jessica Rindels
2. March 2024, Harvard Business School: *Research Brief: The Real Cost of Countering China*; Jennifer Myers
3. February 2024, Brookings Institution: *Hidden exposure: Measuring US supply chain reliance*; Richard E. Baldwin, Rebecca Freeman, and Angelos Theodorakopoulos
4. February 2024, Council on Foreign Relations: *Why U.S. Imports From Mexico Surpassed Those From China;* Brad W. Setser
5. February 2024, National Bureau of Economic Research: Tariff Rate Uncertainty and the Structure of Supply Chains ; Sebastian Heise, Justin R. Pierce, Georg Schaur & Peter K. Schott
6. February 2024, Peterson Institute for International Economics: *Would Trump's threats of new tariffs survive legal challenge in the Supreme Court?*; Alan Wm. Wolff
7. February 2024, Competitive Enterprise Institute: *Trump proposes 60 percent China tariff*; Ryan Young
8. January 2024, Tax Foundation: *Tariff of Abominations Redux: Trump Proposes 60% Tariff on Chinese Goods*; Erica York
9. January 2024, Consumer Technology Association: *Consumer Technology Association Releases New Report Showing That Revoking PNTR for China = Massive Inflation for American Consumers*; Ed Frank
10. January 2024, National Bureau of Economic Research: Help for the Heartland? The Employment and Electoral Effects of the Trump Tariffs in the United States; David Autor, Anne Beck, David Dorn, Gordon H. Hanson
11. November 2023, The American Action Forum: *Trump's Proposed 10 Percent Tariff: Considering the Impact*; Tom Lee
12. October 2023, Consumer Technology Association: *Landmark Study Shows Bringing All Tech Manufacturing Back to U.S. Not Feasible*, Ed Frank
13. September 2023, Brookings Institution: BPEA Conference Draft: Hidden Exposure: Measuring U.S. Supply Chain Reliance; Richard Baldwin, Rebecca Freeman, Angelos Theodorakopoulos
14. September 2023, The Committee for a Responsible Federal Budget: *Donald Trump's Universal Baseline Tariff*;
15. August 2023, Harvard Business School: Global Supply Chains: The Looming 'Great Reallocation'; Laura Alfaro & Davin Chor
16. August 2023, Harvard Kennedy School: *Global Supply Chains: The Looming "Great Reallocation" [PowerPoint Slides]*; Laura Alfaro & Davin Chor
17. July 2023, The Tax Foundation: *Tracking the Economic Impact of U.S. Tariffs and Retaliatory Actions*; Erica York
18. April 2023, Council on Foreign Relations: *The Cost of Trump's Trade War with China Is Still Adding Up;* Gabriel Cabanas, Natalia Feinberg and Inu Manak

19. March, 2023, U.S. International Trade Commission: Economic Impact of Section 232 and 301 Tariffs on U.S. Industries; Peter Herman, Kelsi Van Veen
20. July 2022, Consumer Technology Association: Analysis of Section 301 Tariff Impacts on Imports of Consumer Technology Products
21. May 2022, American Action Forum: The Total Cost of U.S. Tariffs; Tom Lee & Jacqueline Varas.
22. April 2022, Tax Foundation: Tracking the Economic Impact of U.S. Tariffs and Retaliatory Actions; Erica York.
23. March 2022, Peterson Institute of International Economics: For Inflation Relief, the United States Should Look to Trade Liberalization; Gary Clyde Hufbauer, Megan Hogan, and Yilin Wang.
24. January 2022, USDA Economic Research Service: The Economic Impacts of Retaliatory Tariffs on U.S. Agriculture; Stephen Morgan, Shawn Arita, Jayson Beckman, Saquib Ahsan, Dylan Russell, Philip Jarrell, and Bart Kenner.
25. December 2021, Tax Foundation: *Who Really Pays the Tariffs? U.S. Firms and Consumers, Through Higher Prices*; Alex Durante & Alex Muresianu
26. October 2021, National Bureau of Economic Research: ILLUMINATING THE EFFECTS OF THE US-CHINA TARIFF WAR ON CHINA'S ECONOMY; Davin Chor and Bingjing Li.
27. May 2021, Moody's Investor Service Report, as reported in *U.S. companies are bearing the brunt of Trump's China tariffs, says Moody's*, CNBC, Yen Nee Lee.
28. January 2021, IHS Markit: Did the US section 301 tariffs work?; Yacine Rouimi.